

Association of Accounting Technicians response to Workplace Pensions Automatic Enrolment: simplifying the process and reducing burdens on employers

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1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the consultation paper on Workplace Pensions Automatic Enrolment: simplifying the process and reducing burdens on employers, released on 1 December 2014.
- 1.2. We are submitting this response on behalf of our membership and from the wider public benefit perspective of achieving sound and effective administration of taxes.
- 1.3. Some of the questions in this consultation are of a technical actuarial nature. AAT's answers are limited to those areas where it is relevant for us to express an opinion.

2. Executive summary

AAT's members in practice serve many of the small and micro-business employers whose staging dates are yet to come. Most of these businesses currently do not have a pension scheme in place. These businesses also have limited, if any, dedicated HR function, therefore ensuring the process is as simple as possible will be essential for the rollout of auto-enrolment to those yet to be affected. For this reason AAT welcomes and supports the many easements offered to employers through these proposed amendments.

3. AAT response to the consultation paper on Workplace Pensions Automatic Enrolment: simplifying the process and reducing burdens on employers

3.1. The following paragraphs outline AAT's response to the proposals outlined in the consultation paper. We have only listed those questions where we have a comment to make.

3.2. The methods and assumptions to be used

Q5) Are there any risks in not prescribing methods and assumptions? Does this provide an incentive to select methods or assumptions which enable a scheme to meet the test where it otherwise might not?

3.2.1. AAT considers it to be unlikely that schemes will use questionable methods and assumptions specifically to reduce their auto-enrolment obligations. The cost of doing so would mitigate against this happening. As would the risk to reputation for both the sponsoring employer and the actuary overseeing the scheme.

3.3. Actuarial certification

Q7) Are there any particular risks in not requiring an actuary to explicitly certify that the scheme meets the cost of benefit accruals test?

3.3.1. AAT believes the potential detriment to employees of not requiring an actuary to make such a certification is negligible, and is outweighed by the cost to employers of having to pay for such a certification should it be required.

3.3.2.AAT would emphasise that every specific regulatory obligation placed on a defined benefit scheme, however small, increases its cost, ultimately increasing the likelihood of the employer questioning its value.

3.4. Other alternative quality requirements

Q9) Are there circumstances in which an individual level cost of accrual test would provide a simpler way to demonstrate compliance with the DB quality requirement?

3.4.1.AAT is not aware of any such circumstance and shares the Department's view that the scheme-level test will achieve the Government's policy objectives of increasing flexibility and simplicity for employers providing good quality DB schemes.

3.5. Proposed changes to the Information Requirements for Employers

Q10) Does revoking regulation 17 and amending regulation 21 reduce the practical burden of information requirements for employers?

3.5.1.AAT agrees that revoking regulation 17 and amending regulation 21 will reduce the practical burden of information requirements for employers. Without these changes the auto-enrolment regulations place a complex disclosure burden on employers. Therefore, AAT welcomes the reduction in this burden

Q11) Will these amendments enable the employer to combine the information to employees within a single communication and remove the need to assess on a continuous basis?

3.5.2.AAT agrees that the employer will be able to combine the relevant information within a single communication. The amendments will reduce the number of situations where an employer needs to assess which category of worker an employee falls into, which represents a welcome lifting of the burden on the employer. But employers will still need to assess eligibility on a continuous basis, for example where income is variable.

Q12) Will employees receive the information that they need at the right time?

3.5.3.AAT believes employees will receive the information that they need at the right time.

Q15) Would the removal of the notice under regulation 33 reduce the practical burden of information requirements for employers?

3.5.4.AAT is of the view that the removal of the notice under regulation 33 would reduce the practical burden of information requirements for employers.

Q16) Is it agreed that the notice under regulation 33 serves little purpose and can be removed without any risk to employees?

3.5.5.AAT concurs that there is virtually no benefit to employees already automatically enrolled in schemes in receiving information about continuity of scheme membership protection. Given the already low levels of engagement with pension communication materials, it is AAT's view that the information contained within the notice under regulation 33 will be perceived by scheme members as having little value.

Q17) Would the removal of paragraphs 2 and 3 be welcome and help get away from individualised communications thereby reducing administrative costs for employers?

3.5.6.AAT considers that the proposed removal of paragraphs 2 and 3 is sensible and will reduce administrative costs for employers. The lack of information, such as the date of enrolment and scheme details should not have a material impact on employees' engagement with, and understanding of the scheme, and so AAT does not object to its removal.

Q18) Are there any risks to the employee in not receiving the information in paragraph 2?

3.5.7.AAT believes the ability to opt out and the extent of the information that is likely to be received soon thereafter from the provider, means the risk to employees of not receiving the information contained in paragraph 2 is minimal.

Q20) Although the draft regulations make no change to paragraph 10 of schedule 2, would further details of where the opt out notice may be obtained be useful for employees?

3.5.8.AAT would always welcome improved clarity around communication of where employees can obtain an opt-out notice. If employees wish to opt out AAT believes the opt-out process should be made as simple as possible for employees should they wish to take such a course of action.

3.6. Reducing the pieces of information coming from an employer

Q25) Is the aspiration of 3 communications realistic and workable?

3.6.1.AAT agrees that the aspiration is both realistic and achievable and support the principle of reducing the amount of paperwork that needs to be delivered by employers.

3.6.2.As the staging dates for small and micro employers draws ever nearer, AAT considers that simplifying the process is a prerequisite.

Q29) Is there any risk that the overall consequence of these amendments may cause confusion or detriment to the employee?

3.6.3.It is AAT's view that any confusion or detriment will be minimal, both for the reasons set out in our answer to Q25 (above), and for the fact that information about auto-enrolment is already widely available on the internet and across other media and will become increasingly common as auto-enrolment continues to be rolled out.

3.7. Jobholders leaving employment

Q30) Do you think that this will be a helpful exception, particularly for small and micro employers? If not, why not?

3.7.1.While the number of small or micro employers who find themselves able to take advantage of this exception will be small, for those that do, the benefits of being able to will be worthwhile in terms of the time saved.

3.7.2.AAT also believes it will be good for the reputation of the auto-enrolment project, the aims of which we support, to remove situations where micro employers have to enrol people they know will be leaving their employment in a short period of time. Without this change auto-enrolment may risk being perceived as bureaucratic.

Q31) How many employers do you think will take advantage of this exception?

3.7.3.AAT's view is that a large proportion of small and micro-employers, who make up a significant representation of the clients of AAT's members in practice, will take advantage of this exception in the event that they find themselves in a situation where it is relevant, i.e. where an employee is to be given notice within the time period.

Q33) Can you foresee any difficulties with removing opt-in rights during notice periods for either employers or individuals?

3.7.4.AAT envisages that the losses incurred by employees wishing to opt in during a notice

period are so insignificant and employees' awareness of the issue is so low, that their removal would not cause difficulties for either employers or individuals.

Q35) Do you think that this exception should be extended to other 'end of employment' situations, for example where a fixed term contract is coming to an end? What do you think the advantages or disadvantages would be to this approach?

3.7.5.AAT's view is that this exception should be extended to other 'end of employment' situations for the same reasons set out in the answer to Q30 (above).

3.8. Cancelling membership of a scheme prior to automatic enrolment

Q36) Do you think this exception will help to simplify the automatic enrolment process for employers, particularly small and micro employers?

3.8.1.AAT believes that it is unreasonable to require an employer to re-enrol an individual who has made an active decision to leave the scheme offered by the employer within the previous 12 months. Some employers will want to be more paternalistic, and therefore re-enrol those who become eligible jobholders, whether by virtue of age or staging date, but not all will. Other employers will prefer to avoid the administrative and payroll burden of enrolling an employee who has already made the decision to leave a scheme. By turning the duty to a power, the proposed amendment leaves employers wanting to re-enrol employees who become eligible jobholders the option to do so, while minimising the burden on those who do not.

Q38) Can you foresee any negative consequences for employers or employees?

3.8.2.AAT cannot foresee any negative consequences for employers or employees.

Q39) Do you think that 12 months is a suitable timeframe for restricting the exception?

3.8.3.AAT agrees that 12 months is a suitable timeframe for restricting the exception.

Q40) How many employers do you think will take advantage of this exception?

3.8.4.AAT has no estimate for the number that will do so across the entire economy. However, amongst the employer-clients of AAT's members in practice, which are typically small and micro-businesses, we consider the number doing so will be small because many of these businesses do not currently offer pension schemes and of those that do, the number that enrol their employees into a pension scheme as soon as they commence employment will be in the minority.

Q42) Do the benefits of this exception outweigh the risks of people being left out of pension savings for up to 3 years?

3.8.5.AAT believes the benefits do outweigh the risks of people being left out of pension savings. It is not known what the likelihood is of someone who has made a conscious decision to leave a pension scheme doing so again if they are re-enrolled within 12 months. AAT's overriding concern is that auto-enrolment be made as straightforward for small and micro employers as possible. AAT believes requiring employers to re-enrol employees who have left a scheme within a matter of months involves a level of intervention on the behalf of the employer that goes far beyond the 'nudge' principles behind the auto-enrolment policy.

3.9. Individuals with tax protected status

Q43) Do you think the exception should be this wide or restricted to certain protections, for example only where further pension accrual could jeopardise an employee's tax status?

3.9.1. AAT believes the exception should be this wide as the potential detriment to employees is minimal, given the grounds the employer must have to believe their employee has tax-protected status.

Q44) Will the proposed exception as drafted help reduce the administrative burden and costs for employers by allowing these employees to be kept out of the automatic enrolment process altogether? If so, what is the average saving for an employer due to a reduction in the administrative burden?

3.9.2. In AAT's view the proposed exception will help reduce the administrative burden although we do not have a figure. However, for the small number of cases where the employee's inadvertent auto-enrolment would have otherwise led to a tax charge, the administrative burden will be significant.

Q47) Is the proposed exception a welcome easement for employees who have tax protected status?

3.9.3. The proposed exception is a welcome easement and will avoid situations where individuals could incur significant tax charges through mistake or miscommunication. The avoidance of such situations will also help limit any reputational damage to the auto-enrolment policy.

Q48) Does the benefit of having this exception for employers outweigh the risk to employees receiving no information about their right to opt in?

3.9.4. AAT believes that those employees in respect of who the exception is utilised are unlikely to want to opt in. AAT also believes that employees will be made aware of their ability to opt in when they furnish their employer with the HMRC certificate of tax protection.

3.10. Taking a pension income using Flexible Drawdown

Q56) Do you think an exception for employees who flexibly-access their pension rights would be welcomed by employers or considered appropriate given the proposed changes to the tax rules from next April?

3.10.1. AAT's view is that an exception for employees who flexibly-access their pension rights would not be welcomed by employers.

3.10.2. Given the annual allowance for those who flexibly-access their pension rights after April 2015 will be £10,000, and not zero as under the current rules, we see the numbers likely to be adversely affected as likely to fall. It is uncertain how many people will flexibly-access their pensions from April 2015, but it is expected that more people will do so than under the current rules. AAT does not believe that employers should be placed into a position where they feel obliged to consider this aspect of the new pension flexibilities, as this could prove an onerous obligation.

4. Conclusion

4.1. AAT welcomes this consultation document which seeks views on draft regulations to simplify the process for automatic enrolment into workplace pensions and reduce the burdens on employers.

4.2. AAT's answers are limited to those areas where it is relevant for us to express an opinion. Given that AAT members have clients that are predominantly SMEs and micro-entities it is particularly relevant for us to comment on AE as it is rolled out to smaller businesses. Therefore AAT welcomes the proposals which reduce the burdens on smaller businesses, for example:

- the proposed changes to the information requirements for employers (See our response to Question 10, 11 and 15 above)
- the proposed changes to cancelling membership of a scheme prior to automatic enrolment (See our response to Question 36 above).

5. About the AAT

- 5.1. AAT is a professional accountancy body with over 49,800 full and fellow members and 83,700 student and affiliate members worldwide. Of the full and fellow members, there are over 4,100 Members in Practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types (figures correct as at 31 December 2014).
- 5.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.
- 5.3. Thank you for the opportunity to respond to the consultation on Workplace Pensions Automatic Enrolment: simplifying the process and reducing burdens on employers.

6. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact AAT at:

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